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Mexico

Solid Wood Products

Marketing Annual

2002

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Report Highlights:
The United States has the largest market share of wood product imports to Mexico, almost 68 percent in 2000. The Mexican market for imported wood products is expanding due to the growth in the furniture and flooring industry, and growth in the manufacturing industry that uses wood pallets for shipping.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Mexico ATO [MX2], MX

PRODUCTION

Annual roundwood production in 2001 increased to 9.6 million cubic meters from 9.4 million cubic meters in 2000. The current annual allowable cut is 2.8 million cubic meters. There is no reliable information available on illegal cutting, contraband, and rural self-consumption of round wood as fuel. Mexico maintains a ban on the export of coniferous sawn wood in the rough since this type of wood is cut illegally and channeled irregularly to the manufacturing of moldings and sidings.

Mexican Secretariat for the Environment and Natural Resources (SEMARNAT) estimates that 45 percent of the established capacity is currently occupied in a series of sustainable forest management programs. The annual timber growth rate is estimated at 35.1 thousand cubic meters a year. The average productivity in temperate forests is 1.2 cubic meters per hectare per year, and in tropical forests is 0.5 cubic meters per hectare per year. The most commercially viable species are softwood pine 82.5 percent, tropical species 4.1 percent, oak and fir 11.7 percent and other softwood species 1.7 percent.

Use of Domestic Forest Products (percentage)	
Lumber	73.0
Cellulose and Paper	15.0
Plywood	4.0
Poles, Piles and Posts	3.0
Fuel and charcoal	5.0

Forest Situation/Outlook

Mexico's total forest area (includes resource base plus other vegetated areas) is estimated at 141.7 million hectares, of which 56.8 million hectares is the resource base and which 21.6 million hectares are used for commercial purposes. The total forested area is owned by communities (ejidos): 70.8 percent, small size proprietors: 15.1 percent and the government: 14.1 percent. The distribution of standing volume, by state and species, in the main producing areas are as follows: Softwood: Durango 25%, Chihuahua 24%, Michoacan 16%, Jalisco 8% and Guerrero 4%; Temperate Hardwood: Michoacan 30%, Durango 20%, Chihuahua 16% and Jalisco 5%; Tropical Hardwood: Chiapas 30%, Veracruz 25%, Quintana Roo 22%, Tabasco 4% and Oaxaca 4%.

The total standing inventory of commercial forests is 2.8 billion cubic meters, of which 1.8 billion cubic meters is in temperate forests and 1 billion cubic meters is in tropical forests (Source: SEMARNAT).

Despite several government programs (PRODEFOR, forest development, PRONARE, reforestation, PRONASILVA, intensive silviculture program) introduced to recover Mexico's forested areas and reduce Mexico's dependence on imported products, the country's immediate and long term ability to meet domestic demand is poor. Deforestation remains a severe problem. Mexico's substandard infrastructure and lack of logging and production equipment compels it to rely on foreign sources for wood products.

Solid Wood Products Situation/Outlook

The most current annual statistics of forest production published in 1999 by the Mexican Secretariat for the Environment and Natural Resources showed that there were 3,497 wood processing related businesses in Mexico. Of these wood processing operations, 2,058 were identified as lumber mills, 65 were plywood and board panels manufacturers, 515 were wooden crates and bins factories, 60 were furniture manufacturers, 64 were paper mills, and 735 participated in other types of wood processing.

The Mexican forest industry is hindered by insufficient resources for forest harvesting, inadequate basic infrastructure for distribution of raw materials, low productivity per hectare, and limited use of forestry techniques. Though the GDP of the forest industry grew annually equal to the rate of overall GDP growth in Mexico until the early 1990s, it has lagged behind the national growth rate since 1995. Thus, the forest industry has decreased in its importance to the national economy.

TRADE

Overview/Outlook

Distributors of all sizes participate in the distribution of forest products in the Mexican market. Distributors obtain the imported product either by importing it directly from the supplier or through an importer/consolidator. Sources in the distribution sector believe that the market will remain stagnant in 2002 due primarily to the decrease in government spending, the slowing construction sector and low consumer demand.
Currently, import tariff fees for US wood products are low or zero. After the elimination of all import fees by January 2003, technical trade barriers are likely to affect the imports of US forest products. However, the 3-5 year outlook appears positive for Mexico, both as an importer of raw materials and semi-finished products, and also as an exporter of furniture, moldings and flooring. In general terms, Mexico will continue to be a net importer of forest products, although in specific product areas it is self-sufficient and, in some cases, an exporter.

According to private sector information sources, traders are concerned about current market trends. The elimination of import taxes may make the market more competitive for domestic products. So far, some forest products have had either a significant reduction in prices and/or a substantial increase in imported volumes. An example of this is the product classified under tariff number 4407.10.02 (boards, planks, beams) in which the value of total imports increased from 49 million to 102 million dollars from 1998 to 2000, an increase of 110 percent. Whereas the imported volume of wood products under this tariff number increased from 810,000 to 2.6 million cubic meters in the same period.

Competition

The United States has the largest share of the Mexican import market for forest products. In 2000, the United States sold 68 percent of all wood and wood products exported to Mexico. Other countries with major wood and wood products exports to Mexico are Indonesia, Chile, Canada and Brazil. Domestic lumber production remains a strong competitor to wood products imported from the United States because of the relatively less expensive domestic lumber due to lower shipping costs and quality. Chile, Indonesia and Canada continue to aggressively penetrate the Mexican softwood, tropical hardwood and plywood market by offering low-priced products. As a result, their imports have increased during the last three years by almost 10 percent.

Market Development Strategies

The majority of houses in Mexico are built with concrete, the traditional building material in Mexico. US lumber and plywood exporters who want to increase sales to Mexico should identify and meet specific demand and material requirements and price their products as competitively as possible. Potential niche markets are the furniture manufacturing sector, the construction sector which consumes large quantities of wood for concrete forming purposes, and the interior decoration sector, with a large number of manufacturers and traders of flooring, paneling and molding. Another niche market are the assembly plants (maquiladoras) located primarily along the US-Mexico border. Maquiladoras manufacture most of the furniture destined for export markets, including structural woods, bathroom furniture and T.V. cabinets, among other products. The main concern among the assembly plants is the relatively higher priced US wood sold by distributors. Reportedly, in order to avoid the mark-up these companies may import US lumber directly.

The US industry should continue disseminating information on applications of temperate hardwood, as well as softwood products. Activities such as seminars targeting potential Mexican users of US temperate hardwood products could expand the market for US forest products. US wood exporters interested in the Mexican market should consider participating in some of the major trade shows targeting the furniture and construction industries in Mexico. Information about dates and places of some of these events follows:

EXPO CONSTRUCTO
When: September 2002
Where: Monterrey, Mexico
Contact: Philippe Mercado, Director, American Plywood Association-Mexico
Tel: (011-52-55) 5281-6087; Fax: (011-52-55) 5281-6089; Email: philippe.mercado@apawood.org
Show Type: Trade show for construction, concrete forming and panel sheathing structural applications.

EXPOCIHAC
When: October 18-23, 2001, October 2002
Where: World Trade Center and Exibimex Convention Center, Mexico City
Contact: Luis Zertuche, Director, American Hardwood Export Council-Mexico
Tel: (011-52-55) 5282-0909; Fax: (011-52-55) 5282-0918; Email: luiszertuche@infosel.net.mx
Show Type: Trade show for construction industry suppliers.

EXPO CONSTRUYE
When: June 2002
Where: Leon, Mexico
Contact: Philippe Mercado, Director, American Plywood Association-Mexico
Tel: (011-52-55) 5281-6087; Fax: (011-52-55) 5281-6089; Email: philippe.mercado@apawood.org
Show Type: Trade show for construction, concrete forming and panel sheathing structural applications.

EXPO AGRO CULIACAN
When: January 24-27, 2002
Where: Culiacan, Mexico
Contact: Philippe Mercado, Director, American Plywood Association-Mexico
Tel: (011-52-55) 5281-6087; Fax: (011-52-55) 5281-6089; Email: philippe.mercado@apawood.org
Show Type: Trade show for materials handling and packaging of produce and agricultural bulk commodities.

EXPO LOGISTICA NORTE
When: February 20-22, 2002, February 2003
Where: Monterrey, Mexico
Contact: Philippe Mercado, Director, American Plywood Association-Mexico
Tel: (011-52-55) 5281-6087; Fax: (011-52-55) 5281-6089; Email: philippe.mercado@apawood.org
Show Type: Trade show for material handling distributors.

EXPO MANUFACTURA 2002
When: February 26-28, 2002
Where: Cintermex Exposition Center, Monterrey Mexico
Contact: Claudia Villagomez, Director, American Forest and Paper Association-Mexico
Tel: (011-52-55) 5282-2111; Fax: (011-52-55) 5282-0919;

Show Type: Trade show for Mexican manufacturers to contact suppliers

PROVI MUEBLE 2002
When: May 2002
Where: Cintermex Exposition Center, Monterrey Mexico
Contact: Luis Zertuche, Director, American Hardwood Export Council-Mexico
Tel: (011-52-55) 5282-0909; Fax: (011-52-55) 5282-0918; Email: luiszertuche@infosel.net.mx
Show Type: Trade show targeting furniture manufacturers.

TECHNO MUEBLE
When: July 2002
Where: Expo Guadalajara, Guadalajara
Contact: Luis Zertuche, Director, American Hardwood Export Council-Mexico
Tel: (011-52-55) 5282-0909; Fax: (011-52-55) 5282-0918; Email: luiszertuche@infosel.net.mx
Show Type: Trade show for the furniture manufacturing industry.

For more information on show dates and contact information, interested US wood exporters may contact the Mexican offices of the following US Trade Associations:

American Forest & Paper Association
Claudia Villagomez, Director
Tel 011-5255-5282-2111
Fax 011-5255-5282-0919
Email: cvillagomez@infosel.net.mx

American Hardwood Export Council
Luis Zertuche, Director
Tel 011-5255-5282-0909
Fax 011-5255-5282-0919
Email: luiszertuche@infosel.net.mx

APA The Engineered Wood Association
Philippe Mercado, Director
Tel 011-5255-5281-6087
Fax 011-5255-5281-6089
Email: philippe.mercado@apawood.org

The Southern Pine Council
Dr. Ramon Echenique, Director
Tel 011-5255-5228-2812-3622
Fax 011-5255-5228-2816-3850
Email: mecam-sa@terra.com

MARKET SEGMENT ANALYSIS

Construction Sector

According to the Mexican Chamber of the Construction Industry (CMIC), a total of 710,000 new homes were built in the year 2000. Three hundred and ten thousand of these were built through programs operated by Federal Government housing agencies (INFONAVIT, FOVI, FONHAPO) and 400,000 by non-government programs. It is now estimated that Mexico has a deficit of close to 6 million homes. Major housing construction companies are planning to build over 1 million new, low-end and middle income homes during 2001-2003.

Prices

Following are exemplary prices of wood material in the Mexican market.

Average Hardwood Lumber Prices USD/Board Foot		
Size	Oak	Ash
1"	3.47	3.26
1.5"	4.63	3.58
2"	5.05	3.89

Source: Consejo de la Madera en la Construccion (COMACO)
Rate of Exchange: 9.50 Pesos to 1 USD.

Average Softwood Prices USD/Board Foot		
Sawn wood	1/2"	3/4"
Sizes		
0.10 x 2.50 mts. (4" x 98")	1.43	1.19
0.15 x 2.50 mts. (8" x 98")	1.43	1.19
0.30 x 2.50 mts. (12" x 98")	1.71	1.42
Pole 1 ½ x 3 ½ x 98"	0.74	n/a

Source: Consejo de la Madera en la Construccion (COMACO)
Rate of Exchange: 9.50 Pesos to 1.00 USD.

Average Tropical Hardwood Lumber Prices USD/Board Foot		
Size	White Cedar	Mahogany
1"	1.71	5.89
1.5"	1.71	5.89
2"	1.71	5.89

Source: Consejo de la Madera en la Construccion (COMACO)
Rate of Exchange: 9.50 Pesos to 1 USD.

Overview

Wood products play an important part in construction in the form of timbers, posts, beams, and roof beams. Mexican consumers are beginning to appreciate the advantages of US timber frame construction materials, such as the reduced construction times and improved energy efficiency. However, large scale wood frame housing construction is still limited because of resistance from end-users, banks, insurance companies and developers. So, consumers and businessmen still lack knowledge about the quality of wood materials and their durability, as compared to traditional masonry/concrete buildings. According to private sources, the wood products that will be used most frequently in Mexico are wood panels, flooring material, lumber, plywood, wood windows and doors.

Currently there are three projects in Mexico, each no larger than 20 houses, which are using wood frame construction. Two of these three projects (one in Guadalajara and one in Mexico City) are focused on the middle and high income consumers. Houses in one of the projects (Colombia, Nuevo Leon) are being built for maquiladora workers.

Policy

On September 14, 2000, Mexico's Treasury Secretariat (SHCP) announced in the *Diario Oficial* (Federal Register) the implementation of a Customs Cash Account system. Wood products are included on the list of agricultural products subject to this Customs Cash Account system (HS classification 4412.13.01, 4412.13.99, 4412.19.02 and 4412.22.01). This system requires importers to deposit in an account 100 percent of duties assessed on the difference between the actual invoice value and the value of the shipment based on a predetermined reference price. The reference price system is designed to control under invoicing tropical hardwood plywood and softwood plywood imports. Exporters can comply with the phytosanitary requirements for green lumber exported to Mexico by having the Mexican authorities fumigate the load at the border at minimal cost.

Tariff Rate Quotas (TRQ)

Under NAFTA, Mexico institutes tariff-rate quotas for five products (see the table below), mainly covering softwood chips and planks. Following are the latest auctions for the quota certificates:

Auction of Permits to Import US Wood Products during 2001

Tariff number	TRQ (MT)
4407.10.02	9,785
4407.99.99	2,544
4407.10.01	123,290
4407.91.01	3,425
4403.10.01	14,677

Because of NAFTA, the import duties for these products have been lowered to one percent for the year 2002 so importers prefer paying the import duty rather than participate in a cumbersome bidding.

Furniture & Interiors Sector

Overview

Mexico's forest products processing industry continues to grow, particularly the furniture, molding, and flooring sectors. As a result, they will continue to be prime candidates for US raw materials. Flooring exports to Mexico have dropped during the last two years. This decline is the result of a growing trend in the Mexican manufacturing sector for Mexican lumber importers and flooring distributors to manufacture their own flooring. This trend is reflected in the increase of lumber imports, especially red oak and maple.

Marketing

The US species most commonly used by the Mexican industry for solid hardwood furniture production are red oak, white oak, hard maple, poplar and ash. Mahogany remains the main competitor for US hardwoods in furniture production. According to furniture manufacturers,
95 percent of lumber imports to Mexico are sourced from the United States. Currently, these furniture manufacturers use 50 percent imported lumber (primarily oak) with the remainder sourced from domestic tropical species and domestic softwoods.

Many Mexican importers are not able to import US hardwoods in large quantities because they lack sufficient cash flow and credit sources. The placing of only small orders (one truckload or less) makes it difficult for the US exporter to ship in a cost efficient manner and to sell his products at a competitive price. In spite of these constraints, Mexico showed a 10.6 percent increase in 1998 as compared to

1997 in US hardwood product imports.

Trade

According to information from the Furniture National Council, there were 784 wood furniture manufacturers operating in Mexico in 2000, of which 88.3 percent were small businesses, 10.3 percent were medium, and 1.4 percent were considered large companies. The total labor force of this sector was over 103,000 workers nationwide. Mexican exports of wood furniture reached $126.7 million in 2001, as opposed to $104 million exports during the previous year. The furniture manufacturing areas in Mexico are located in Mexico City, Guadalajara, Monterrey and San Luis Potosi. Recent consumption patterns indicate that, while Mexico is the fourth most important export market for both red oak and tulipwood, these two traditionally popular species in Mexico are beginning to lose ground to maple, whose volume has increased by 17.3% and value 29.4%, during the last two years. Experts within furniture manufacturers' associations throughout Mexico attribute this increase to the growing popularity of maple furniture and flooring among higher income families who purchase maple furniture at high-end department stores.

Material Handling Industry

Overview

An increasing segment of the Mexican manufacturing industry uses pallets and containers. Manufacturers who export their products buy solely on price. These manufacturers will never see the packing again and care little about the quality, but care much about the price. This segment is supplied by the domestic softwood lumber industry. Currently, there is a small market segment of the export industry utilizing these "non-returnable" pallets and crates, which are manufactured with a cover of either plywood or OSB. In contrast, exporters of higher value priced products such as electronic components, chemical compounds and automotive parts tend to ensure the quality and safety of their exports by using good quality and resistant packing material. This market segment is likely to expand and become a niche for US suppliers.

Wood based structural plywood and OSB may find a promising market for the segment of the Mexican industry that is investing in captive handling systems. An example of a captive handling system are reusable pallets or agricultural bins. US exporters already sell reusable panel-decked pallets in the industrial market. The volume of structural panel-decked plywood and OSB panels imported into Mexico is growing. Plastic pallets and containers represent only an estimated 10 percent of the cargo handling equipment as compared to wood manufactured material. Plastic material is used less frequently in captive handling systems as compared to wood products because it is more expensive and cannot be repaired.

Marketing

There are significant market opportunities for exports of US wood because of the flexibility of the custom-made pallet design to handle any kind of product, regardless of the product form, or nature of presentation (i.e., boxes, drums, sacks, bundles, bulk). Supermarkets and large distribution centers like the central markets and the agricultural sector constitute attractive market opportunities for US wood exports. The manufacturing of fiberboard and particle board in Mexico is one or two generations behind other countries. There is a great opportunity for US wood board manufacturers in supplying this market sector.

Policy

Wooden pallets classified under HTS Import Tariff Number 4415.20.01 are subject to a 2.0 percent import duty, Mexico subjects these goods to sanitary regulations, such as the NOM-014-RECNAT-1997, a sanitary standard regulation for the import of used pallets, crates and other wood packing material. Exporters can comply with the phytosanitary requirements for wooden pallets exported to Mexico by having the Mexican authorities fumigate the load at the border at minimal cost.

Trade

Although considerable inroads have been achieved by the US structural wood panel industry over the last few years, a large part of this market remains untapped. The maquiladora industry has turned Tijuana and Ciudad Juarez into important centers of assembling electronic appliances, such as televisions and computers. Textiles is another important export sector. Mexico also has a sizable agricultural, chemical and other processed and non-processed product sectors which all require heavy-duty packaging materials for their respective exports. This market presents a good opportunity for US exports of structural plywood and OSB. Because of its low price, OSB has an advantage in the manufacturing of non-returnable pallets and crates. The primary area of consumption for these products continues to be along the border. Areas that are further away from the border tend to have higher prices for US products due to the high cost of domestic freight. The main constraints for market growth are the lack of familiarity with the panel life cycle-cost, coupled with the traditionally used disposable board lumber pallet.